

## **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON DRAKENSTEIN MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Drakenstein municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 14 to 74.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 et seq. of SA Standards of GRAP, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Drakenstein municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Drakenstein municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

### **Emphasis of matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Significant uncertainties**

10. With reference to note 49 to the financial statements, the municipality was served with letters from two companies claiming compensation for losses suffered when their buildings was damaged by a fire. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

11. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during 2009/2010 in the financial statements of the municipality at, and for the year ended, 30 June 2010. The error is in respect of the provision for electricity and water sales for 2007/2008.

### **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Material inconsistencies in other information included in the annual report**

13. At the date of finalising my audit, the annual report has not yet been finalised. I have therefore not been able to determine if there are any inconsistencies between the audited information and other information presented in the annual report.

### **Unaudited supplementary schedules**

14. The supplementary information set out on pages 70 to 78 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations; MFMA, Municipal Regulations (Regulations – GNR/GN), DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998) and financial management (internal control).

### **Predetermined objectives**

16. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

### **Non-compliance with regulatory requirements**

#### **Municipal Systems Act**

#### ***Internal auditing of performance measurements***

17. Drakenstein Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA. Consequently the performance audit committee did not review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality.

### **Usefulness of reported performance information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

***Planned and reported performance targets not specific, measurable and time bound***

18. For the selected objectives, 97% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance;
- measurable in identifying the required performance;
- time bound in specifying the time period or deadline for delivery.

**Reliability of reported performance information**

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

***Reported targets not reliable as inadequate supporting source information was provided***

19. For the selected objectives the validity, accuracy and completeness of 22% of the reported targets could not be established as sufficient appropriate audit evidence could not be provided for audit purposes.

**INTERNAL CONTROL**

20. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA and MSA but not for the purpose of expressing an opinion on the effectiveness of internal control.

21. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives.

## **Leadership**

22. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. There is a risk that all the municipality's mandates will not be achieved as the related performance indicators are not specific and measurable as adequate supporting documentation could not be provided for all performance outcomes.

## **OTHER REPORTS**

### **Investigations in progress**

23. The internal audit unit performed an investigation on the procurement of flags for the 2010 Soccer World Cup and the Public Viewing Area. The report has not yet been tabled at the date of this report.

*Mohlat-Genal*

Cape Town

30 November 2010



AUDITOR-GENERAL  
SOUTH AFRICA

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